PURDUE UNIVERSITY

Financial Report

2007–2008

Neil Armstrong Hall of Engineering

The Neil Armstrong Hall of Engineering, dedicated on October 27, 2007, is a spectacular new gateway to Purdue University's internationally recognized College of Engineering. Visitors approaching the building, located at Stadium and Northwestern avenues on the West Lafayette campus, are captivated by winglike roof extensions that mimic the appearance of an aircraft and symbolize Purdue's contributions to the flight and space program. Drawn closer, visitors are greeted by a bronze sculpture of Armstrong as an undergraduate at Purdue in the 1950s, and they can follow 21 sculpted moon boot impressions toward the $53.2 million building. Nearly four decades after Armstrong took the first steps on the moon, new generations of Purdue engineers are reaching for the stars.

LETTER OF TRANSMITTAL

To the Board of Trustees of Purdue University:

President France A. Córdova

We are pleased to submit this, the 86th annual financial report of Purdue University. This report is for the fiscal year that ended June 30, 2008, and sets forth the complete and permanent record of the financial status of the University for the year.

The University Financial Statements have been audited by the Indiana State Board of Accounts, and the Auditors' Report appears on page 5.

Respectfully submitted,

FRANCE A. CÓRDOVA
President

Respectfully submitted,

MORGAN R. OLSEN
Executive Vice President and Treasurer

Approved for publication and transmission to the governor of the state.

REPORT OF THE TREASURER

This report presents Purdue University's financial position and the results of operations for the fiscal year ending June 30, 2008. We provide this financial report as part of the University's commitment to report annually on its fiscal affairs. These financial statements have been audited by the Indiana State Board of Accounts, and their report appears on page 5.

Purdue University, founded in 1869 and named after benefactor John Purdue, began its journey with six faculty and 39 students and a mission to provide agriculture and mechanical arts education as one of the nation's land-grant institutions. Today, Purdue University is a world-class research university, offering instruction in a wide range of disciplines and granting undergraduate and graduate degrees through four campuses. The student body is made up of more than 70,000 students enrolled statewide, from every Indiana county, all fifty states, and 130 countries.

In 2008, Purdue kicked off a new strategic plan — "New Synergies" — focused on achieving the challenges facing humanity, growing and creating opportunities for Indiana and the global economy, and enhancing student learning for success in a changing world. Three major goals form the plan's foundation: launching tomorrow's leaders, promoting discovery with delivery, and meeting global challenges. Complete details of the plan are presented at www.purdue.edu/strategic_plan.

The campus master planning process for West Lafayette, Indiana University-Purdue University Fort Wayne, and Purdue North Central continues, with completion and approval expected by the end of the 2009 fiscal year. Purdue Calumet's plan was approved recently by the Board of Trustees.

An Office of Sustainability has been established to bring organization and coordination to the many "green" activities underway across the West Lafayette campus. Four staff members now are accredited professionals by the U.S. Green Building Council for Leadership in Energy and Environmental Design (LEED), and new buildings will be designed to LEED standards with few exceptions. Global influence on the local energy market is more significant than at any point in history — as evidenced by the 60% increase in the price of Indiana coal in one year — making campus energy conservation efforts more critical than ever before. We are entering the second year of a comprehensive retro-commissioning process for existing buildings, and an energy service company has been hired to perform qualified energy savings projects. With the third year of the repair and rehabilitation (R&R) funding plan completed in 2008, existing facilities and infrastructure updates continue.

The University completed major construction projects in excess of $126 million during fiscal year 2008, including Neil Armstrong Hall of Engineering, McCutcheon Drive parking addition, PMU Market renovation, Fort Wayne Music Building, and Phase II of Fort Wayne Housing. Additional facility investments estimated at more than $571 million were under way or authorized as of June 30, 2008.

The University's enterprise student information systems were replaced in June 2008, completing the successful implementation of the entire set of core University administrative systems.

Purdue manages and invests a consolidated asset pool comprised of the Purdue University and Purdue Research Foundation endowment funds in order to capture economy of scale and to provide access to a variety of sophisticated investment options. The Purdue Endowment continued diversification efforts during fiscal year 2008 by decreasing allocations to U. S. equities and increasing allocations to natural resources and marketable and non-marketable alternative investments. The market value of the combined endowment decreased $51 million during fiscal year 2008 to $1.736 billion.

MORGAN R. OLSEN
Executive Vice President and Treasurer

BOARD OF TRUSTEES

As of June 30, 2008

The responsibility for making rules and regulations to govern the University is vested in a 10-member Board of Trustees appointed by the governor. The selection of these trustees is prescribed in Indiana Code IC 20-12-37. Three of the trustees are selected by the Purdue Alumni Association. The remaining seven trustees are selected by the governor. Two of the trustees must be involved in agricultural pursuits, and one must be a full-time student of Purdue University. All trustees serve for a period of three years, except for the student member, who serves for two years.

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As of June 30, 2008

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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF PURDUE UNIVERSITY, WEST LAFAYETTE, INDIANA

We have audited the accompanying basic financial statements of Purdue University, a component unit of the State of Indiana, as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University as discussed in Note 1, which represents 100% of the assets and revenues of the discretely presented component unit. We also did not audit the trust which maintains the University's portion of trust agreements as discussed in Note 1. The University's interest in the charitable remainder trusts represents approximately .5% of the assets of the University. The financial statements of these units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based upon the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Purdue University, as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2008, on our consideration of Purdue University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. This report will be issued in the University's Single Audit report prepared in accordance with OMB Circular A-133.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

State Board of Accounts
STATE BOARD OF ACCOUNTS

October 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ending June 30, 2008

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of Purdue University for the fiscal year ending June 30, 2008, the financial activities for the 2007–2008 fiscal year, and a brief description of the financial statements produced herein. This discussion should be read in conjunction with the financial statements and the notes to the statements, which immediately follow this section.

The financial information presented in this report is designed to enable the user to review how the University managed its resources to meet its primary missions of discovery, learning, and engagement.

It should be recognized that a presentation of the financial performance of the University is not a full measure of the value of the discovery, learning, and engagement functions carried out during the year. This report deals with the costs and sources of revenue used to provide the quality and diversity in higher education that the University believes necessary to meet its goals and objectives.

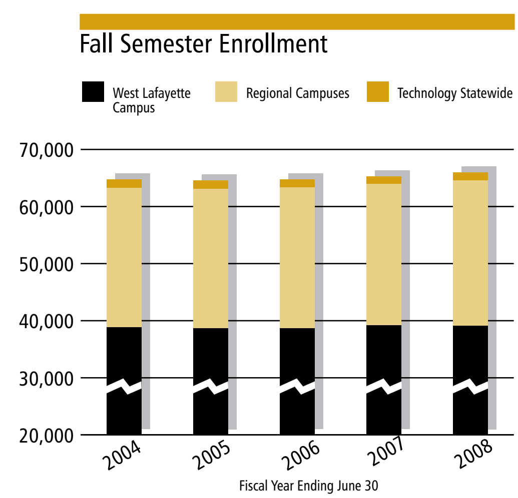
FINANCIAL HIGHLIGHTS

Operating revenues were $1.11 billion, compared to $1.01 billion in the prior year — an increase of 9.4%. This increase is due primarily to increases in net student fee revenue ($33.7 million), grants and contracts ($26.8 million), and auxiliary enterprises ($20.9 million).

Tuition and fee revenue, net of scholarship allowances, increased from $492.1 million in the 2006–2007 fiscal year to $525.8 million in the 2007–2008 fiscal year — an increase of 6.8%. Enrollment at all campuses for 2007–2008 increased by 670 students. West Lafayette's enrollment decreased 126 students. Enrollment patterns for the past five years are illustrated in Figure 1.

Total operating expenses increased 9.4% from $1.46 billion for the 2006–2007 fiscal year to $1.60 billion for the 2007–2008 fiscal year. This change was driven by a 6.7% increase in compensation and benefits, the single largest component of operating expenses, which increased by $66.3 million from $994.4 million to $1.06 billion. An increase of $56.3 million in supplies and services from $334.0 million to $390.3 million also contributed to the rise. This change is largely attributed to the increase in utilities and the inflation of costs associated with inventory and supplies.

Figure 1. Five-Year Enrollment Data*



** Enrollment figures do not include Purdue University students enrolled at the Indiana University-Purdue University Indianapolis campus.*

Nonoperating revenues decreased $132.8 million, from $749.6 million in the 2006–2007 fiscal year to $616.8 million in the 2007–2008 fiscal year. Investment income decreased $175.6 million from $215.6 million in the 2006–2007 fiscal year to $40.0 million in the current fiscal year. Investment income includes dividends and interest, realized gains and losses, and net unrealized gains. The University reports its investments at fair value as of the date of the financial statements. The change in the market value of investments between June 30, 2007, and June 30, 2008, is included in investment income.

Capital and endowment activity increased $3.6 million or 4.4% from the 2006–2007 fiscal year.

The 2007–2008 change in net assets of $127.2 million represents a decrease of $174.8 million or 57.9% from the prior year increase of $302.0 million.

PURDUE UNIVERSITY FINANCIAL STATEMENTS

Use of the Financial Statements

The primary purpose of financial reporting, whether for a commercial enterprise or for a university, is to provide information that will assist (1) management in the effective allocation and use of the organization's resources and (2) the general public, investors, creditors, and others in evaluating the effectiveness of management in achieving organizational objectives. The nature of the organization, its resources, and its objectives all serve to influence the form and process by which the accounting is accomplished and information reported.

The main goal of a college or university is to provide services that fulfill societal needs without regard for financial gain. Resources are consumed to attain service objectives rather than to make a profit. The accounting and reporting process must, therefore, address itself to accounting for resources received, used, and held rather than for the determination of net income.

The Statement of Net Assets provides a summary view of the assets, liabilities, and net assets of the University. The Statement of Revenues, Expenses, and Changes in Net Assets, on the other hand, summarizes the yearlong financial activities that caused the changes in year-end net assets on the Statement of Net Assets. Likewise, the Statement of Cash Flows reconciles the beginning and ending balances of cash and cash equivalents and articulates sources and uses of cash. The Statement of Net Assets classifies assets and liabilities as either current or noncurrent. Current assets are available to meet the needs of the University in the short term. Similarly, current liabilities are due and payable within the next fiscal year.

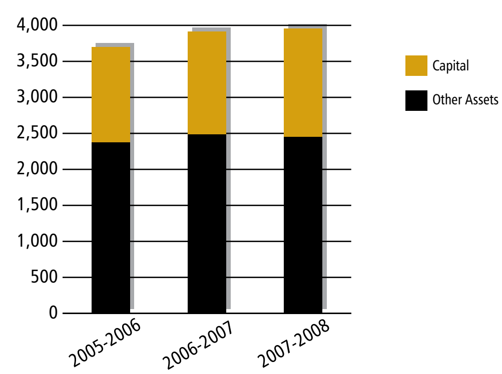
Statement of Net Assets

Current assets include those that may be used to support current operations, such as cash and cash equivalents, accounts and pledges receivable, and inventories. Noncurrent assets include capital assets, certain pledges receivable, and investments. Total assets were $3.96 billion as of June 30, 2008, compared to $3.91 billion at June 30, 2007, an increase of $49.4 million or 1.3%. Current assets as of June 30, 2008, decreased $75.8 million, while noncurrent assets increased $125.2 million, or 3.9%.

Figure 2 depicts the portion of total assets that were capital.

Figure 2

Capital vs. Other Assets
(Dollars in Millions)



Current liabilities are generally expected to become due and payable over the course of the following fiscal year. These include accounts payable, the current portion of long-term debt, liability for securities lending activity, and salaries and wages payable. Current liabilities include variable-rate demand bonds, although most of the bonds are expected to be paid in future fiscal years. Noncurrent liabilities

Figure 3

Long-term Debt vs. Other Liabilities
(Dollars in Millions)

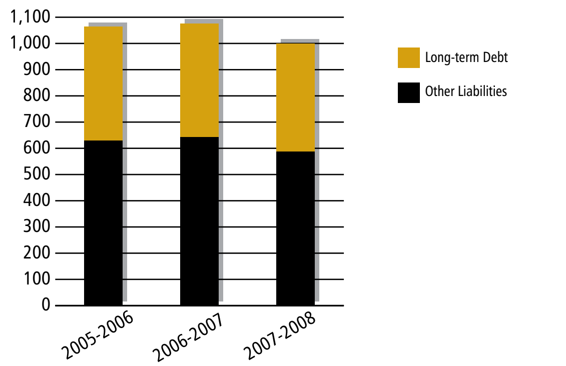
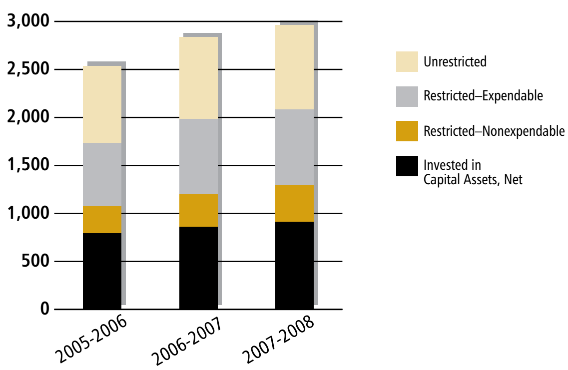


Figure 4

Composition of Net Assets
(Dollars in Millions)



include bonds, notes, and leases payable. Total liabilities were $997.6 million on June 30, 2008, and $1.075 billion on June 30, 2007. Figure 3 depicts the portion of long-term debt (noncurrent) relative to total liabilities.

A discussion of the University's capital financing activities appears in the Debt and Financing Activities section on page 11.

Net assets are classified into four categories: invested in capital assets, net of related debt; restricted–nonexpendable; restricted–expendable; and unrestricted. "Invested in capital assets, net of related debt" represents the University's investment in capital assets such as movable equipment, buildings, land, infrastructure, and improvements, net of accumulated depreciation and related debt, subject to the University's policies on capitalization. "Restricted–nonexpendable" represents the University's permanent endowment funds received from donors for the purpose of creating present and future income. These funds must be held inviolate and in perpetuity and are, therefore, not expendable. Earnings on these funds support various programs determined by donors. "Restricted–expendable" represents net assets that have purpose restrictions imposed by third parties. Examples include scholarship funds and contract and grant funds. Unrestricted net assets do not have third-party restrictions, although management has designated these funds for a particular purpose. It is management's practice to designate unrestricted net assets for specific purposes at the close of each fiscal year. Total net assets for the University were $2.96 billion as of June 30, 2008. Figure 4 provides a comparison between fiscal years as well as the composition of net assets.

Hovde Hall of Administration

A summarized comparison of the University's assets, liabilities, and net assets appears in Table 1.

Table 1. Summary Statement of Net Assets (Dollars in Thousands)

	2005–2006	2006–2007	2007–2008
Current Assets	$616,334	$681,386	$605,607
Capital Assets	1,324,298	1,423,291	1,510,794
Other Assets	1,654,189	1,805,246	1,842,966
Total Assets	$3,594,821	$3,909,923	$3,959,367
Current Liabilities	$584,425	$597,753	$530,147
Noncurrent Liabilities	477,847	477,578	467,429
Total Liabilities	$1,062,272	$1,075,331	$997,576
Invested in Capital Assets, Net of Related Debt	$791,088	$863,282	$913,478
Restricted–Nonexpendable	282,897	335,904	375,364
Restricted–Expendable	662,549	785,084	790,562
Unrestricted	796,015	850,322	882,387
Total Net Assets	**$2,532,549**	**$2,834,592**	**$2,961,791**

Capital and Noncapital Projects

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, faculty, and staff. Significant projects completed during the 2007–2008 fiscal year are listed in Table 2.

Table 2. Major Projects Completed during the 2007–2008 Fiscal Year (More than $2 million)

	Project Total (Dollars in Thousands)
Neil Armstrong Hall of Engineering	$53,187
Beck Agricultural Center	5,200
Forney Hall Renovation, Phase II	2,350
Fort Wayne Student Housing, Phase II	10,500
Fort Wayne Music Building	28,000
McCutcheon Drive Parking Garage Addition	16,712
PMU Market Renovation	7,000
Printing Services Facility	3,700
Total Major Projects Completed	**$126,649**

Purdue Mall Fountain and Purdue Bell Tower

Table 3. Major Construction Projects in Progress (More than $2 million)

	Project Budget (Dollars in Thousands)
Boiler No. 6	$53,000
Calumet — Student Housing, Phase II	21,100
Patty Jischke Early Care and Education Center (Child Care Center)	3,000
Discovery Learning Center	25,000
Discovery Park Site Development, Phase VI	2,400
Fort Wayne Energy Management Performance	2,454
Harrison Hall Sprinkler System and AC Renovation	16,200
Harrison Street Aerial Line Relocation	2,500
High-Voltage Improvement, Phase II	25,100
Wayne T. and Mary T. Hockmeyer Hall of Structural Biology	32,900
Lilly Hall West Wing Renovations	28,550
McCutcheon Hall Fire Protection and Air Conditioning	11,207
Niswonger Aviation Technology Building	7,800
Purdue Village Community Center	3,820
Replacement Student Apartments — State Street and MacArthur Drive	52,000
Residence Halls Food Service Consolidation, Phase IV	19,800
Stewart Center Fourth-Floor Renovation for Library Archives and Special Collections	3,600
Wade Utility MACT Compliance	9,000
Wetherill Laboratory of Chemistry Electrical Upgrade	2,000
Windsor Residence Halls Renovation	53,000
Young Hall Exterior Recladding	6,000
Young Hall Floors 9 and 10 Renovation	4,455
Total Major Projects in Progress	**$384,886**

In addition, the University's Board of Trustees has authorized the following major projects that had not been started as of June 30, 2008, and may not have state approval.

Table 4. Major Projects Authorized but Not Started

	Project Budget (Dollars in Thousands)
Brown Hall Fire Alarm and Sprinkler System	$3,000
Energy Performance Contract — Brown, Stewart, and Civil Engineering	4,504
Fort Wayne Student Housing, Phase III	38,000
Gatewood Wing — Mechanical Engineering	34,500
Hillenbrand Residence Hall Dining Court Renovation	3,200
Krannert Building Basement and Third-Floor Renovation	3,500
Mackey Complex Renovation and Addition	99,500
Total Major Projects Authorized	**$186,204**

DEBT AND FINANCING ACTIVITIES

During the fiscal year, the University issued Student Facilities Revenue Bonds Series 2007C for $61.725 million. This series was issued to partially fund construction of a new residence hall of 365 beds and the first of a five-phase renovation of the Windsor Hall complex at the West Lafayette campus. The bonds were issued in variable-rate mode.

The University also entered into a Commercial Paper Agreement with Goldman, Sachs & Company on April 1, 2008. This agreement authorized a maximum line of credit of $50 million to finance portions of the costs of certain infrastructure, equipment, and facilities on various campuses.

The University continues to maintain its excellent credit ratings by Moody's Investors Service (Aa1) and by Standard & Poor's (AA). Purdue University is one of only nine public higher education institutions whose Moody's credit rating is Aa1 or better (Aaa). In addition, the University's variable-rate debt received short-term ratings by Moody's of VMIG-1 and by Standard & Poor's of A-1+.

Figure 5

Composition of Long-term Debt
(Dollars in Millions)

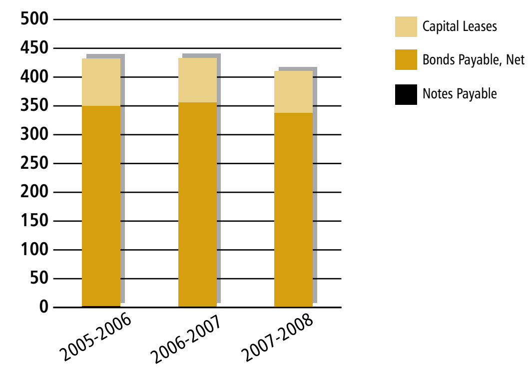


Figure 5 compares the composition of long-term debt by fiscal year.

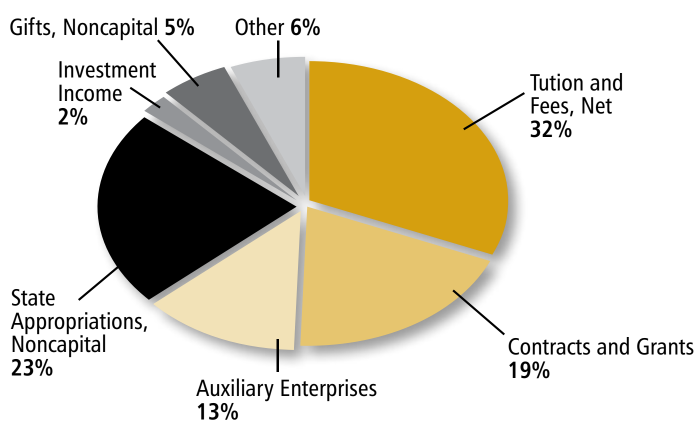
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding how the results of operations, nonoperating revenues, and capital funding over the course of the fiscal year affect the net assets of the University.

Revenues are classified as either operating or nonoperating. Operating revenues include tuition and fees, grants and contracts, auxiliary enterprises, and sales and services. Tuition and fees and housing are shown net of an allowance for scholarships. If scholarships awarded to students exceed the amount owed for tuition and housing, the amounts paid to students are shown as expenses. Nonoperating revenues include state appropriations, investment income, and private gifts. Because Purdue is a public university, nonoperating revenues are an integral part of its operating budget. Private gifts for capital projects and additions to the University's permanent endowment are also considered nonoperating sources of revenue but are not part of the University's operating budget. Figure 6 provides information about the University's sources of revenues, excluding endowments and capital, for the 2007–2008 fiscal year.

Revenues, 2007–2008

Figure 6



A summarized comparison of the University's revenues, expenses, and changes in net assets follows in Table 5:

Table 5. Summary Statement of Revenues, Expenses, and Changes in Net Assets (Dollars in Thousands)

	2005–2006	2006–2007	2007–2008
Operating Revenues			
Tuition and Fees, Net	$449,691	$492,122	$525,791
Grants and Contracts	238,652	251,714	278,481
Auxiliary Enterprises, Net	182,364	190,732	211,676
Other Operating Revenues	69,818	77,186	90,472
Total Operating Revenues	$940,525	$1,011,754	$1,106,420
Operating Expenses			
Depreciation	$90,325	$97,708	$106,652
Operating Expenses	1,293,609	1,361,592	1,489,407
Total Operating Expenses	$1,383,934	$1,459,300	$1,596,059
Operating Loss	$(443,409)	$(447,546)	$(489,639)
Nonoperating Revenue	528,548	667,866	531,490
Capital and Endowments	63,761	81,723	85,348
Total Nonoperating Revenues	$592,309	$749,589	$616,838
Increase in Net Assets	$148,900	$302,043	$127,199
Net Assets, Beginning of Year	2,383,649	2,532,549	2,834,592
Net Assets, End of Year	**$2,532,549**	**$2,834,592**	**$2,961,791**

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents sources and uses of cash and cash equivalents throughout the fiscal year. These activities are presented in four categories: operating, noncapital financing, investing, and capital and related financing. Net increases or decreases in cash and cash equivalents provide a reconciliation to beginning and ending balances as presented in the Statement of Net Assets. This statement also indicates the extent to which operating activities provided or used cash. Table 6 provides a summarized comparison of the University's sources, uses, and changes in cash and cash equivalents.

Table 6. Summarized Comparison of Changes in Cash and Cash Equivalents (Dollars in Thousands)

	2005–2006	2006–2007	2007–2008
Cash Used by Operating Activities	$(349,652)	$(373,899)	$(379,971)
Cash Provided by Noncapital Financing Activities	473,227	534,389	546,414
Cash Provided (Used) by Investing Activities	37,159	10,731	(74,369)
Cash Used by Capital and Related Financing Activities	(137,467)	(122,703)	(139,582)
Net Increase (Decrease) in Cash and Cash Equivalents	$23,267	$48,518	$(47,508)
Cash and Cash Equivalents, Beginning of Year	385,383	408,650	457,168
Cash and Cash Equivalents, End of Year	**$408,650**	**$457,168**	**$409,660**

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

For the 2008–2009 fiscal year, the University received increases in operating appropriations from the state of Indiana for each campus — West Lafayette (4.8%), Calumet (4.0%), North Central (7.5%), and Fort Wayne (3.6%). Tuition rate increases were set for 2008–2009, with a four to five percent increase. With this combination of limited increases in operating appropriations and tuition and fees, the University has continued its emphasis on internal reallocations to high-priority initiatives.

The University expects to receive $19.8 million in repair and rehabilitation (R&R) funding from the state for the 2007–2009 biennium, which is fifty percent of the requested formula funding amount. The state has also agreed to pay in full the $8.6 million of its June 2005 Purdue University operating accounts payable next year. The University must allocate these dollars for deferred maintenance, not general fund expenses as originally appropriated.

The University has submitted its 2009–2011 Legislative Request for Operating Appropriations to the state. The request includes base adjustments for enrollment change, degree change, time to degree, and research support. The Indiana Commission for Higher Education (ICHE) and the State Budget Agency requested that no assumption be made for maintenance/price increases for the 2009–2011 biennium. Maintenance increases for personnel, supplies and expense, and institutional student aid will be considered by ICHE in setting non-binding tuition targets along with its budget recommendation. In addition to modest base adjustments, the request also calls for a new initiative to tap into the economic potential of the health and bioscience industries. Purdue University and Indiana University are proposing a historic partnership — the Indiana Innovation Alliance. The alliance will unite the state's largest research universities with businesses, economic development organizations, healthcare enterprises, and state government to expand Indiana's share of the national investments in bioscience research and development. The January 2009 legislative session will set Purdue's operating appropriation for the next biennium.

Enrollment* at all Purdue campuses increased to 67,355 for the fall semester of the 2008–2009 academic year — up from 65,987 the previous year. This includes an increase of 988 students on the West Lafayette campus for a total of 40,090. Undergraduate enrollment continues to be carefully managed at the West Lafayette campus, while other Purdue campuses have the ability to serve additional full-time and part-time students.

Overall, the University is positioned to maintain its strong financial position into the future.

Particular attention should be given to the "Notes to the Financial Statements" that are an integral part of the financial statements.

** Enrollment figures do not include Purdue University students enrolled at the Indiana University-Purdue University Indianapolis campus.*

STATEMENT OF NET ASSETS

	As of June 30	
	2008	2007
	(Dollars in Thousands)	
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$409,660	$457,168
Accounts Receivable, Net of Allowance for Uncollectible Amounts	61,615	55,116
Marketable Securities	63,492	98,595
Pledges Receivable, Net of Allowance for Uncollectible Amounts	22,586	19,047
Notes Receivable, Net of Allowance for Uncollectible Amounts	8,214	9,295
Accrued Revenues	15,014	16,264
Appropriation Receivable from the State	8,603	8,598
Other Assets	16,423	17,303
Total Current Assets	**$605,607**	**$681,386**
Noncurrent Assets:		
Notes Receivable, Net of Allowance for Uncollectible Amounts	$45,532	$42,350
Pledges Receivable, Net of Allowance for Uncollectible Amounts	40,617	26,668
Marketable Securities and Other Investments	1,739,307	1,710,480
Interest in Charitable Remainder Trusts	17,510	17,149
Appropriation Receivable from the State		8,599
Capital Assets, Net of Accumulated Depreciation	1,510,794	1,423,291
Total Noncurrent Assets	**3,353,760**	**3,228,537**
Total Assets	**$3,959,367**	**$3,909,923**
LIABILITIES:		
Current Liabilities:		
Accounts Payable	$46,413	$52,072
Accrued Salary and Wages	10,809	10,351
Accrued Compensated Absences (Current Portion)	24,644	24,207
Deferred Revenue	41,983	47,246
Deposits Held in Custody for Others	22,576	21,657
Accrued Expenses	21,275	25,263
Securities Lending Liability	125,391	247,464
Other Post-Employment Benefits	4,880	
Bonds (Net), Leases, and Notes Payable (Current Portion)	232,176	169,493
Total Current Liabilities	**$530,147**	**$597,753**

STATEMENT OF NET ASSETS *(CONTINUED)*

	As of June 30	
	2008	2007
	(Dollars in Thousands)	
Noncurrent Liabilities:		
Accrued Compensated Absences (Less Current Portion)	$27,653	$16,263
Other Post-Employment Benefits (Less Current Portion)	1,254	
Funds Held in Trust for Others	7,556	8,042
Bonds (Net), Leases, and Notes Payable (Less Current Portion)	410,914	433,099
Advances from Federal Government	20,052	20,174
Total Noncurrent Liabilities	**467,429**	**477,578**
Total Liabilities	**$997,576**	**$1,075,331**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	**$913,478**	**$863,282**
Restricted		
Nonexpendable		
Instruction and Research	197,569	179,317
Student Aid	149,752	129,179
Other	28,043	27,408
Total Nonexpendable	**$375,364**	**$335,904**
Expendable		
Instruction, Research, and Public Service	$139,512	$99,710
Student Aid	58,990	55,823
Auxiliary Enterprises	4,584	4,572
Construction	96,893	84,934
Other (Note 1)	490,583	540,045
Total Expendable	**$790,562**	**$785,084**
Unrestricted	**882,387**	**850,322**
Total Net Assets	**$2,961,791**	**$2,834,592**

See Accompanying "Notes to the Financial Statements."

Agricultural Administration Building

COMPONENT UNIT

Statement of Financial Position

	Purdue Research Foundation Statement Reported as of June 30, 2008 (Dollars in Thousands)
ASSETS:	
Cash and Cash Equivalents	$36,253
Accounts and Other Receivables	5,363
Pledges Receivable	1,140
Investments in Securities	776,294
Mortgages and Contracts	22
Notes Receivable	794
Investment in AmeriPlex PRF, LLC	10,261
Real Estate	145,885
Less Allowances	(19,662)
Net Real Estate	$126,223
Other Assets and Equipment	$11,483
Less Allowances	(4,706)
Net Other Assets and Equipment	$6,777
Interest in Charitable Remainder Trusts	$29,901
Interest in Charitable Perpetual Trust	17,555
Total Assets	**$1,010,583**
LIABILITIES AND NET ASSETS:	
Liabilities	
Accounts Payable	$13,013
Net Funds Held as Custodian	53,722
Bonds Payable	80,330
Mortgages and Notes Payable	6,018
Gift Annuity Payable	3,149
Total Liabilities	**$156,232**
NET ASSETS:	
Unrestricted	$108,399
Board Designated	7,500
Temporarily Restricted	520,969
Permanently Restricted	121,154
Unrealized Gains	96,329
Total Net Assets	**$854,351**
Total Liabilities and Net Assets	**$1,010,583**

See Note 1.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Year Ending June 30 2008	2007
	(Dollars in Thousands)	
Operating Revenues		
Tuition and Fees	$596,019	$559,414
Less: Scholarship Allowance	(70,228)	(67,292)
Net Tuition and Fees (Pledged for Repayment of Student Fee Bonds)	$525,791	$492,122
Federal Appropriations	16,901	16,660
County Appropriations	7,862	7,460
Grants and Contracts	278,481	251,714
Sales and Services	60,568	50,884
Auxiliary Enterprises		
(Net of Scholarship Allowance of $8,133 and $7,299 Respectively)	211,676	190,732
Other Operating Revenues	5,141	2,182
Total Operating Revenues	**$1,106,420**	**$1,011,754**
Operating Expenses		
Compensation and Benefits	$1,060,743	$994,371
Supplies and Services	390,310	333,954
Depreciation Expense	106,652	97,708
Scholarships, Fellowships, and Student Awards	38,354	33,267
Total Operating Expenses	**$1,596,059**	**$1,459,300**
Net Operating Loss	**(489,639)**	**(447,546)**
Nonoperating Revenues (Expenses)		
State Appropriations	$377,004	$365,354
Grants and Contracts	37,567	33,684
Private Gifts	90,063	75,557
Investment Income	39,989	215,563
Interest Expense	(22,853)	(26,120)
Other Nonoperating Revenues, Net	9,720	3,828
Total Nonoperating Revenues before Capital and Endowments	**$531,490**	**$667,866**
Capital and Endowments		
State Capital Appropriations	$18,889	$10,706
Capital Gifts	27,882	21,746
Private Gifts for Permanent Endowments and Charitable Remainder Trusts	38,059	51,939
Plant Assets Retired and Insurance Recoveries	518	(2,668)
Total Capital and Endowments	**$85,348**	**$81,723**
Total Nonoperating Revenues	**616,838**	**749,589**
INCREASE IN NET ASSETS	**$127,199**	**$302,043**
Net Assets, Beginning of Year	2,834,592	2,532,549
Net Assets, End of Year	**$2,961,791**	**$2,834,592**

See Accompanying "Notes to the Financial Statements."

COMPONENT UNIT

STATEMENT OF ACTIVITIES

	Purdue Research Foundation For the Year Ending June 30, 2008 (Dollars in Thousands)
Revenue and Support	
Amount Received for Purdue University Research Projects	$5,269
Less Payments to Purdue University	(5,269)
Administrative Fee on Research Projects	
Contributions	$15,247
Income on Investments	15,974
Net Unrealized and Realized Losses	(33,372)
Change in Gift Annuities	112
Revenue from Pledges	335
Decrease in Interests in Charitable Trusts	(2,802)
Rents	7,363
Royalties	4,621
Other	2,868
Net Assets Released from Restrictions	
Total Revenue and Support	**$10,346**
Expenses and Losses	
Expenses for the Benefit of Purdue University	
Contributions to Purdue University	$18,574
Patent and Royalty	9,128
Grants	11,339
Services for Purdue University	1,790
Development Office	576
Other	2,013
Total Expenses for the Benefit of Purdue University	**$43,420**
Administrative and Other Expenses	
Salaries and Benefits	$9,512
Property Management	10,810
Professional Fees	5,257
Supplies	436
Interest	2,813
Research Park	904
Other	2,548
Total Administrative and Other Expenses	**$32,280**
Change in Net Assets	$(65,354)
Net Assets, Beginning of Year	919,705
Net Assets, End of Year	**$854,351**

See Note 1.

STATEMENT OF CASH FLOWS

	For the Year Ending June 30	
	2008	2007
	(Dollars in Thousands)	
Cash Flows by Operating Activities		
Tuition and Fees, Net of Scholarship Allowances	$524,439	$499,815
Federal Appropriations	16,901	16,660
County Appropriations	7,862	7,460
Grants and Contracts	274,561	237,001
Sales and Services	59,908	42,643
Auxiliary Enterprises, Net of Scholarship Allowances	207,832	192,596
Other Operating Revenues	6,526	(2,714)
Compensation and Benefits	(1,046,001)	(994,213)
Supplies and Services	(391,502)	(333,300)
Scholarships, Fellowships, and Student Awards	(38,354)	(33,267)
Student Loans Issued	(9,659)	(14,814)
Student Loans Collected	7,516	8,234
Cash Used by Operating Activities	**$(379,971)**	**$(373,899)**
Cash Flows by Noncapital Financing Activities		
State Appropriations	$385,599	$376,149
Grants and Contracts	37,567	33,684
Gifts for Other than Capital Purposes	117,215	120,218
Funds Held in Trust for Others	(3,274)	2,765
Other Nonoperating Revenues, Net	9,307	1,573
Cash Provided by Noncapital Financing Activities	**$546,414**	**$534,389**
Cash Flows by Investing Activities		
Purchases of Investments	$(14,318,019)	$(5,433,840)
Proceeds from Sales and Maturities of Investments	14,176,075	5,381,499
Interest and Dividends on Investments, Net	67,575	63,072
Cash Provided (Used) by Investing Activities	**$(74,369)**	**$10,731**
Cash Flows by Capital and Related Financing Activities		
Debt Repayment	$(29,541)	$(167,287)
Capital Debt Proceeds	70,037	214,165
Interest Expense	(23,173)	(25,434)
Capital Gifts Received	19,135	28,717
State Appropriations for Capital Projects	18,889	10,706
Construction or Purchase of Capital Assets	(194,929)	(183,570)
Cash Used by Capital and Related Financing Activities	**$(139,582)**	**$(122,703)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$(47,508)**	**$48,518**
Cash and Cash Equivalents, Beginning of Year	457,168	408,650
Cash and Cash Equivalents, End of Year	**$409,660**	**$457,168**

STATEMENT OF CASH FLOWS *(CONTINUED)*

Reconciliation of Cash Used for Operating Activities (Indirect Method)

	For the Year Ending June 30	
	2008	**2007**
	(Dollars in Thousands)	
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$(489,639)	$(447,546)
Depreciation Expense	106,652	97,708
Gifts in Kind	2,008	166
Changes in Assets and Liabilities:		
Accounts Receivable	(6,711)	(15,005)
Notes Receivable	(1,656)	(6,563)
Accrued Revenues	(791)	(622)
Other Assets	880	(4,743)
Accrued Compensated Absences	17,961	2,038
Accounts Payable	(3,741)	5,300
Deferred Revenue	(5,554)	(2,959)
Deposits Held in Custody for Others	3,951	561
Accrued Expenses	(3,668)	1,796
Accrued Salary and Wages	458	(3,747)
Advances from Federal Government	(121)	(283)
Cash Used by Operating Activities	**$(379,971)**	**$(373,899)**

See Accompanying "Notes to the Financial Statements."

Schleman Hall of Student Services

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ending June 30, 2008

NOTE 1 — BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION:

The financial statements of Purdue University have been prepared in accordance with the principles contained in Governmental Accounting Standards Board (GASB) Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities," within the financial reporting guidelines of GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments" and with other accounting principles generally accepted in the United States of America, as prescribed by the GASB. **Amounts in the notes are presented in thousands of dollars unless stated otherwise.**

During fiscal year 2008, the University-adopted GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions"; GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"; and GASB Statement No. 50, "Pensions Disclosures."

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General Information. Purdue University was established in 1869. It is the land-grant university for the state of Indiana. The responsibility for making rules and regulations to govern the University is vested in a 10-member Board of Trustees. The selection of these trustees is prescribed in Indiana Code IC 21-23-3. Three of the trustees are selected by the Purdue Alumni Association. The other seven trustees are selected by the governor. Two of the trustees must be involved in agricultural pursuits, and one must be a full-time student of Purdue University. All trustees serve for a period of three years, except for the student member, who serves for two years.

The Internal Revenue Service has ruled that the units of Purdue University are exempt under Code sections 115(a) and 501(c)(3), and they are not "private foundations" under The Tax Reform Act of 1969.

Reporting Entity. The University is a special-purpose government that has elected to report as a business-type activity (BTA) using proprietary fund accounting and financial reporting. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. The University is also a component unit of the state of Indiana and is one of seven public universities in the state. The University receives funding from the state for operations, repair and maintenance, and debt service. Its nonexempt employees participate in the state's public employees retirement program. (See Note 12.)

The financial reporting entity, as defined by GASB Statement No. 14, "The Financial Reporting Entity," consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

The University adopted GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which 1) provides criteria for determining whether certain university-related organizations should be reported as component units based on the nature and significance of their relationship with a primary government and 2) clarifies reporting requirements for these organizations. Based on these criteria, the financial statements define the University as the primary government, and one entity — the Purdue Research Foundation — as a discretely presented component unit. Two other entities, The Purdue Foundation and the Ross-Ade Foundation, continue to be blended within the University's statements and are not separately presented, in accordance with GASB Statement No. 14.

Discrete Component Unit

Purdue Research Foundation. The Purdue Research Foundation (PRF) was created in 1930. The primary purpose of PRF is to promote the educational purpose of Purdue University; award scholarships, grants, or other financial assistance to students and faculty; seek, acquire, and hold gifts and endowments for the needs of the University; and acquire property or facilities for the future use or benefit of the University. PRF is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. PRF provided grants, contracts, and gifts to Purdue University totaling approximately $32,376 during its most recent fiscal year. PRF's fiscal year begins July 1 and ends June 30. PRF's audited financial statements, as presented in Purdue University's financial report, were rounded to the nearest thousand dollars. Complete financial statements for the foundation can be obtained by writing to: Purdue Research Foundation, 3000 Kent Avenue, West Lafayette, IN 47906.

PRF is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, "Financial Reporting of Not-for-Profit Organizations." As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundations' financial information in the University's financial report for these differences.

Blended Component Units

The Purdue Foundation, Inc. The Purdue Foundation, Inc., was created in 1979. It is a separately incorporated, not-for-profit entity. The primary purpose of the foundation is the solicitation, receipt, and acceptance of gifts, donations, and bequests of funds and other property for the benefit of Purdue University. The foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Purdue University is the sole beneficiary of The Purdue Foundation.

Ross-Ade Foundation. The Ross-Ade Foundation was created in 1923. It is a separately incorporated, not-for-profit entity organized as an affiliated organization. The Ross-Ade Foundation constructs athletic and parking facilities on behalf of the University. These assets are leased by the University and are reported as capital leases. (See Note 8.)

Other

IPFW Foundation. The University is also the co-beneficiary with Indiana University of the Indiana-Purdue Foundation at Indiana University-Purdue University Fort Wayne.

Accounting Methods and Policies

The University prepares its financial statements on an accrual basis using the economic resources measurement focus.

Financial Accounting Standards Board (FASB). Certain pre-1989 FASB statements apply to public colleges and universities. GASB Statement No. 35 also permits business-type activities to adopt post-1989 FASB statements unless they conflict with GASB pronouncements. The University has elected not to adopt post-November 30, 1989, FASB statements.

Accounts Receivable. Accounts receivable are shown net of an allowance for doubtful accounts. The amount of the allowance was $2,722 for the 2007–2008 fiscal year and $2,434 for the 2006–2007 fiscal year.

Pledges Receivable. Pledges receivable are accrued as of the end of the fiscal year, provided the pledge is verifiable, measurable, and probable of collection. Pledges receivable do not include gifts made in anticipation of estates, telephone solicitations, or promises of endowment funds. An allowance for uncollectible pledges is calculated based on the University's experience. The amount of the allowance was $2,418 for the 2007–2008 fiscal year and $1,884 for the 2006–2007 fiscal year.

Notes Receivable. Notes receivable primarily represent student loan repayments due the University and are presented net of allowance for doubtful accounts of $20 for the 2007–2008 fiscal year and $34 for the 2006–2007 fiscal year.

Inventories. Inventories are composed of (1) consumable supplies and items held for resale or recharge within the University, (2) fuel for consumption, and (3) livestock and grain. The inventory of coal and limestone is valued on the Last In/First Out (LIFO) basis. Oil inventory is valued using the weighted-average method. Consumable supplies and items for resale are priced on a moving-average basis. Cattle and grain inventories are valued at market. Other miscellaneous inventories are generally valued on the First In/First Out (FIFO) basis. Agricultural commodities are reported using the consumption method and are measured by physical count. Consumable supplies and items held for resale are reported using the purchase method and are measured using the moving average cost method for the 2007–2008 fiscal year.

Investments. Investments, exclusive of institutional physical properties, are generally reported at fair value as of June 30, 2008. Fair value is generally based on quoted market price. Investments, exclusive of endowment funds, may be classified as cash equivalents, current or noncurrent, depending on the individual investments' maturity date at June 30. Endowment funds are primarily included in noncurrent investments, with the exception of amounts designated for distribution.

Prepaid Expenses. Prepaid expenses include amounts paid for services attributable to the fiscal year beginning July 1, 2008. These services include insurance, equipment leases, services of consultants, subscriptions, and certain subcontracts. These amounts are identified at the end of the fiscal year and accrued for financial reporting purposes.

Capital Assets. Capital assets are stated at cost or fair market value at date of gift, less accumulated depreciation computed on a straight-line basis over the estimated useful life, as shown in the following table (in whole dollars). Capital assets are removed from the records at the time of disposal.

The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Property Class	Threshold	Useful Life
Moveable Equipment (including fabricated equipment)	$2,500	More than one year
Software	$100,000	5 years
Administrative Systems	$500,000	7–10 years
Buildings and Related Components	$100,000	10–50 years
Land Improvements	$100,000	Varies
Infrastructure	$100,000	Varies

Net Assets. University resources are classified for accounting and financial reporting purposes into four net asset categories:

- Invested in capital assets, net of related debt: Resources resulting from capital acquisition or construction, net of accumulated depreciation and net of related debt. (See Note 8.)
- Restricted–nonexpendable: Net assets subject to externally imposed stipulations that the funds be maintained inviolate and in perpetuity. Such assets include the University's permanent and term endowment funds (see Note 10) and are categorized as instruction and research, student aid, and other.
- Restricted–expendable: Net assets that may be spent provided certain third-party restrictions are met. The following categories of restricted–expendable net assets are presented: instruction, research, and public service; student aid; auxiliary enterprises; construction; and other. Approximately 93% or $456,450 of the "other" category results from undistributed gain on endowment funds and the fair value of funds functioning as endowments where the donor has restricted the use of the funds for a particular purpose. Neither component is available for general institutional use.
- Unrestricted: Net assets not subject to externally imposed stipulations pertaining to their use. Management may designate that these funds will be spent for certain projects or programs or to fulfill certain long-term goals. Management has designated substantially all unrestricted net assets for academic and capital purposes.

Operating Revenues and Expenses. Business-type activities receive financing in whole or in part by charging fees for goods and services to external users. These exchange transactions are considered part of operations. The University's operating revenues include student tuition and fees, grants and contracts, auxiliary operations (such as Intercollegiate Athletics and Housing and Food Services), sales and service operations, federal land-grant appropriations, and county appropriations. Revenues are accrued when earned and measurable. Most expenses of the University — other than interest — are considered operating expenses. Operating expenses include compensation and benefits, travel, and supplies. Graduate, staff, staff dependent, and staff spouse fee remissions are included with compensation and benefits. Expenses are accrued when incurred and measurable. Expenses are reported using natural classifications in the Statement of Revenues, Expenses, and Changes in Net Assets. Functional reporting appears in Note 14. Indirect expenses, such as depreciation, are not allocated across functional categories.

Nonoperating Revenues and Expenses. Nonoperating revenues include state appropriations, private gifts, investment income, and certain federal financial aid. Nonoperating expenses primarily include interest on short-term and long-term borrowings.

Intrauniversity Transactions. Intrauniversity transactions are eliminated from the statements to avoid double counting of certain activities. Examples of these transactions are internal loans and sales and services between University departments.

Restricted and Unrestricted Resources. When both restricted and unrestricted resources are available for a particular expenditure, University departments may select the most appropriate fund source based on individual facts and circumstances. The University, as a matter of policy, does not require funds to be spent in a particular order, only that the expenditure be allowable, allocable, and reasonable to the fund source selected. Restricted funds are categorized as restricted until the external stipulations have been satisfied.

Student Fees. Tuition and fees assessed to students are reported net of scholarship allowances. Scholarship allowances represent amounts credited to students' tuition and fees and include scholarships, Pell Grants, and various other types of aid. Student loans are not included in this calculation. Aid applied to housing is shown as an allowance against auxiliary revenues. Aid remitted directly to students is shown as scholarships, fellowships, and student awards expenses. Graduate and other employment-related remissions are included with compensation and benefits expenses.

Grants and Contracts. The University has been awarded grants and contracts for which the monies have not been received or expended. These awards have not been reflected in the financial statements but represent commitments of sponsors — both government and other — to provide funds for specific research and training projects.

The University makes commitments to share in the cost of various sponsored projects. Funds to satisfy these commitments are designated when grants and contracts are awarded. As sponsor dollars are spent, the University matches according to the terms of the agreement.

Gifts. The University receives pledges of financial support from many different sources. Gift income is recognized when received or pledged. In-kind gifts of tangible or intangible property are recognized at fair value on the date of gift and are capitalized, if appropriate, subject to the University's policies on capitalization. For the 2007–2008 fiscal year, revenue from gifts-in-kind of $2,666 was recognized. Comparative data for 2006–2007 reflect $8,194 in gifts-in-kind revenue.

Student Aid. Monies are received that are restricted by donors for aid to students and are reported in the financial statements as private gifts. When aid is awarded to students, it is either reflected as a scholarship allowance or expense. Monies received from donors who have specified the recipient are reported as deposits.

Compensated Absences. Liabilities for compensated absences are recorded for vacation leave based on actual amounts earned as of the balance sheet date. Exempt employees may accrue vacation benefits up to a maximum of 44 days. Clerical and service staff may earn vacation up to 320 hours. For all classes of employees, vacation is payable upon termination. Liabilities for sick leave are recorded for clerical and service staff that are eligible for, and have earned termination payments for, accumulated sick days upon termination or retirement. The accompanying statement of net assets reflects an accrual for the amounts earned and ultimately payable for such benefits as of the end of the fiscal year. As a result of a systems change in the 2007–2008 fiscal year, the University recorded compensated absences using actual vacation balances for its eligible administrative staff. In past fiscal years, this amount was estimated using statistical samples.

Purdue Research Foundation Trust Funds. The Purdue Research Foundation (PRF) Trust Funds are various revocable and irrevocable trusts established for the benefit of Purdue University, the Purdue Research Foundation, the former Purdue Alumni Foundation, and affiliates. The Purdue Research Foundation acts as trustee for these trusts. The Internal Revenue Service has determined that the PRF Trust Funds are exempt from federal income tax as defined in Sections 642 and 664 of the Internal Revenue Code.

The University records its interest in PRF Trusts' charitable remainder trusts based on the estimated present value of future cash flows. Future cash flows are estimated using an assumed investment rate of return on the underlying investments that will satisfy the trust requirements and an applicable discount rate at the time of contribution. The University's discrete component unit reflects their respective PRF Trust interest on the Statement of Financial Position. The fair value of funds held by PRF Trusts for Purdue University was $27,727 for 2007–2008 and $28,413 for 2006–2007. Change in fair value from one fiscal year to the next is reflective of changes in the market value of the underlying investments, new trusts being added, and the maturation and liquidation of existing trusts.

Reclassifications. Certain reclassifications have been made to the prior year statements for comparative purposes and do not constitute a restatement of prior year periods. Major reclassifications include: $138,265 of Bonds, Leases, and Notes Payable from Noncurrent Liabilities to Current Liabilities; $32,059 of Restricted Expendable–Other net assets to Restricted Expendable–Construction net assets; and $33,684 of Grant and Contract revenue from Operating Revenues to Nonoperating Revenues.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, revolving and change funds, cash in transit, credit card deposits in transit, securities lending cash collateral, and certain investments with maturities three months or less as of the balance sheet date. It is the University's practice to invest operating cash balances and bond proceeds in investments of varying maturity dates. (See Note 3.) Investments, exclusive of endowment funds, that are included in cash equivalents represent short-term, highly liquid investments that are both a) readily convertible to known amounts of cash and b) so near their maturity date that they present insignificant risk of changes in value because of changes in interest rates. Cash purchases and sales of those types of investments are part of the University's cash management activities rather than part of its operating, capital, investing, and financing activities; details of these transactions are not reported in the Statement of Cash Flows.

NOTE 3 — DEPOSITS AND INVESTMENTS

Deposits. At June 30, 2008, the bank balance of the University's deposits (demand deposit accounts) was $2,628, of which $145 was covered by federal depository insurance. The remaining balance was insured by the state of Indiana's Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investments. Authorization for investment activity is stated in Indiana Code IC 21-29-2-1. Additionally, the Bylaws of the Trustees of Purdue University revised and amended on November 10, 2006, authorize the treasurer of the Board of Trustees to implement investment activity. The investment policy, as approved by the Board of Trustees, outlines parameters for investment activity for the University. As of June 30, 2008, and June 30, 2007, the University had the following investments:

Investment Type	June 30, 2008	June 30, 2007
U.S. Agencies	$93,751	$98,795
Asset-Backed Securities	50,188	58,209
Corporate Bonds	298,553	208,656
U.S. Equity	356,437	405,654
International Equity	187,295	207,757
International Fixed Income	7,365	9,338
Marketable Alternatives	169,427	144,265
Mortgage-Backed Securities	258,983	207,999
Private Equity	76,664	47,897
Real Estate	12,028	6,241
U.S. Treasuries and Securities	126,050	290,382
Securities Lending Cash Collateral	125,391	247,464
Mutual Funds and Cash	450,327	333,586
Total	**$2,212,459**	**$2,266,243**

Investment Policies, Interest Rate, and Credit Risks. The University's cash management investment policy outlines the parameters for cash management investment activity for the University. The Board of Trustees approved this policy on April 11, 2008. Authorized investments (exclusive of endowment funds) include obligations of the United States government, its agencies, and its instrumentalities. Also included are commercial paper (rated A1/P1 or better); federally insured bank obligations (rated A or better); tri-party repurchase agreements; asset-backed securities (rated at least AAA or equivalent); corporate notes, bonds, or securities (rated investment grade) with demonstrated liquidity and marketability; pooled funds including mutual funds and common trust funds; and high-yield bonds (minimum credit quality of BB-/Ba3). All ratings must be by a nationally recognized rating agency. Portfolios will be invested in securities that result in a weighted average credit quality rating of at least "AA" or better as recognized by a national rating agency. The portfolio will be positioned to maintain sufficient liquidity to meet the operating needs of the University. Funds not required to meet cash needs will be invested over a longer-term horizon.

Invested bond proceeds follow investment practices in compliance with arbitrage regulations and generally have maturities of three years or less. These investments are readily available to match expected construction expenditures.

The University's investment policy for endowments outlines the parameters for endowment investments for the University. The Board of Trustees approved this policy on December 15, 2007. For the University's endowment pool, as a partial hedge against prolonged economic contraction, a commitment to intermediate and long-term bonds should be maintained. The Investment Committee has adopted a target allocation of 15% for the Fixed Income fund. Portfolios will be invested in securities that result in a weighted average credit quality rating of at least "AA" or better.

The estimated fair value of investments is based on quoted market prices except for certain investments, primarily private equity partnerships, hedge funds, and similar alternative investments, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by external investment managers within the past fiscal year through June 30. Because alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market value for such investments existed.

Purdue Memorial Union

The University had the following fixed-income investments and maturities on June 30, 2008, and June 30, 2007:

June 30, 2008	Maturity				
Sector	**0–1 year**	**1–5 years**	**6–10 years**	**>10 years**	**Totals**
U.S. Agencies	$49,291	$29,703	$6,549	$8,208	$93,751
Asset-Backed Securities		24,652	10,778	14,758	50,188
Corporate Bonds	18,238	192,319	57,335	30,661	298,553
International Fixed Income		5,427	1,938		7,365
Mortgage-Backed Securities	4,845	19,870	10,978	223,290	258,983
U.S. Treasuries and Securities		92,836	30,251	2,963	126,050
Securities Lending Cash Collateral	125,391				125,391
Mutual Funds and Cash	308,830	50,383	65,960	25,154	450,327
Total	**$506,595**	**$415,190**	**$183,789**	**$305,034**	**$1,410,608**

June 30, 2007	Maturity				
Sector	**0–1 year**	**1–5 years**	**6–10 years**	**>10 years**	**Totals**
U.S. Agencies	$67,420	$26,621	$2,866	$1,888	$98,795
Asset-Backed Securities		34,866	4,525	18,818	58,209
Corporate Bonds	27,426	100,783	51,174	29,273	208,656
International Fixed Income			9,338		9,338
Mortgage-Backed Securities	2,764	20,176	48,337	136,722	207,999
U.S. Treasuries and Securities	29,848	218,587	28,229	13,718	290,382
Securities Lending Cash Collateral	247,464				247,464
Mutual Funds and Cash	111,823	97,511	121,223	3,029	333,586
Total	**$486,745**	**$498,544**	**$265,692**	**$203,448**	**$1,454,429**

The distribution of investment securities by credit ratings for June 30, 2008, and June 30, 2007, is summarized below. The Federal National Mortgage Association and Federal Home Loan Mortgage Company debt instruments represent $124,560 (5.6%) and $100,930 (4.6%), respectively, as of June 30, 2008. This compares to $178,311 (7.9%) and $96,263 (4.2%), respectively, as of June 30, 2007.

	June 30, 2008		June 30, 2007	
AAA	$527,613	23.8%	$708,273	31.3%
AA	98,839	4.5%	60,499	2.7%
A	72,404	3.3%	40,312	1.8%
BAA	82,720	3.7%	60,022	2.6%
BA	13,296	0.6%	16,944	0.7%
B	5,160	0.2%	4,769	0.2%
CAA	1,111	0.1%	782	0.0%
Unrated	1,411,316	63.8%	1,374,642	60.7%
Total	**$2,212,459**	**100.0%**	**$2,266,243**	**100.0%**

Spire of University Hall

Investment Custodial Credit Risk. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk. At June 30, 2008, with the exception of $258,119 in private placements and investments in limited partnerships ($198,403 as of June 30, 2007), all investments were held in University accounts at the University's custodial banks.

Foreign Currency Risk. Endowment equity managers may invest in common stocks, preferred stocks or fixed-income instruments convertible into common stocks, and American Depository Receipts of foreign corporations. The University's endowment fixed-income managers may invest in foreign fixed-income securities equivalent in quality to permitted domestic securities, but not to exceed 20% of the assets entrusted to the manager. All currency exposures are to be hedged into the U.S. dollar unless otherwise approved by the Investment Committee. Please refer to the Investment Type table on page 26 for the University's exposure to international investments. In addition to those investments, the University estimates $29,888 of international exposure in its alternative investments ($38,942 as of June 30, 2007).

NOTE 4 — SECURITIES LENDING

The treasurer of the University, in accordance with policies established by the Board of Trustees, has entered into an agreement with a trust company to participate in a securities-lending program. The market value of the cash collateral is recorded as an asset in the Statement of Net Assets along with a corresponding liability. At June 30, 2008, the University had securities with market value of $130,201 involved in loans (compared to $323,084 on June 30, 2007). These loans were supported by collateral of $133,064 ($327,835). Of this collateral amount, $125,391 ($247,464) was cash and is included in cash and cash equivalents in the Statement of Net Assets, and $7,673 ($80,371) was acceptable non-cash collateral. The University does not have the ability to pledge or sell the non-cash collateral received except in the case of borrower default. Non-cash collateral is not included in the University's Statement of Net Assets. Securities lending of domestic securities is cash collateralized on the contract date at 102%, and foreign securities are cash collateralized at 105%. Credit risk is calculated as the aggregate of the lender's exposures to individual borrowers or on individual loans. At June 30, 2008, the University had no aggregate credit risk.

The University and the borrowers of its securities maintain the right to terminate all securities-lending transactions on demand. The cash collateral received on each loan is invested, together with the cash collateral of other lenders, in a co-mingled investment pool owned by the custodian. The maximum weighted maturity of the fund is 90 days. Since the loans may be called on demand, their duration does not generally match the duration of the investment made with the cash collateral. If the University had to terminate a term loan, the lending agent has the ability to substitute the same security from a different client while returning the University's security. For the year ending June 30, 2008, income from its participation in this securities-lending program was $9,388 (compared to $15,673 on June 30, 2007), and the expense was $8,342 ($15,333). Net income to the University from this program was $1,046 ($340). Under the securities-lending agreement, the custodian remits to the University earnings less rebate fees and expenses on a monthly basis.

NOTE 5 — DISAGGREGATION OF RECEIVABLES AND ACCOUNTS PAYABLE

Accounts receivable consisted of the following:

	June 30, 2008	June 30, 2007
Grants and Contracts	$43,177	$39,491
Student and General	21,160	18,059
Less: Allowance for Doubtful Accounts	(2,722)	(2,434)
Total Accounts Receivable, Net	**$61,615**	**$55,116**

Notes receivable consisted primarily of student loans as follows:

	June 30, 2008	June 30, 2007
Perkins Loans	$26,991	$26,580
Student Loans, Other Notes	26,775	25,099
Less: Allowance for Doubtful Loans	(20)	(34)
Total Notes Receivables	$53,746	$51,645
Less: Noncurrent Portion	(45,532)	(42,350)
Current Portion	**$8,214**	**$9,295**

Accounts payable consisted of the following:

	June 30, 2008	June 30, 2007
Construction Payables	$19,950	$21,868
Accounts Payables, Other	26,463	30,204
Total Accounts Payable	**$46,413**	**$52,072**

NOTE 6 — OTHER POST-EMPLOYMENT BENEFITS

Purdue University offers medical insurance for those retirees who are 55 or older whose age and years of service are equal to or are greater than 70 and have at least 10 years of service. Early retirees are given the option to continue their medical insurance if they pay the entire cost of the blended medical plan rate, which includes both active employees and early retirees. The early retirees benefit in that the cost of the benefit exceeds the cost of the plans, which creates an implicit rate subsidy. After the retiree reaches the age of 65, the program is no longer offered.

Purdue also offers a long-term disability program, which includes retirement benefit payments, medical and life insurance premium payments for a small required premium paid by the employee. After the employee reaches the age of 65, the program is no longer available. The income benefit liability for employees disabled before January 1, 2004, was transferred to an insurance carrier, and all future disability income benefit liability is now fully insured.

The post-retirement medical plans are single-employer plans administered by Purdue University, as authorized by the Board of Trustees, and are financed on a pay-as-you-go basis. Purdue's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The actuarial assumptions included are shown on page 32. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a 20-year period.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health-care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following tables show the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

Determination of Annual Required Contribution (ARC)

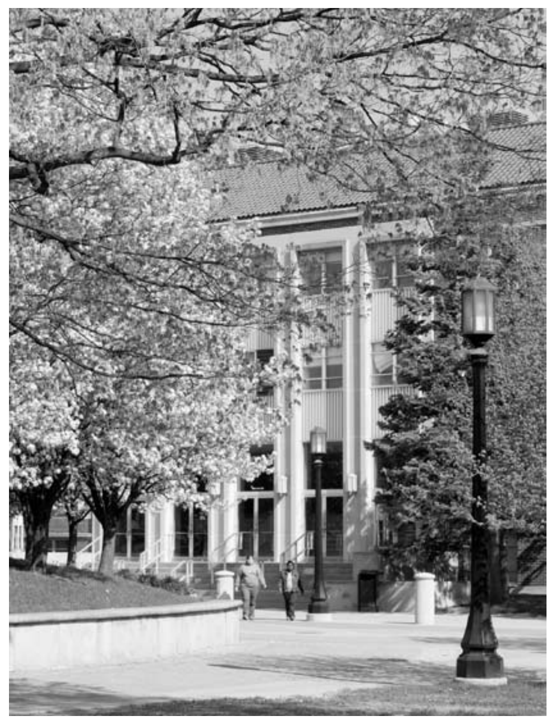
Cost Element	**For Fiscal Year Ending June 30,2008**
	Amount
Normal Cost	$6,578
Amortization of the Unfunded	
Actuarial Accrued Liability (20 Years)	4,436
Total Annual Required Contribution (End of Year)	**$11,014**

Schedule of Employer Contributions

Fiscal Year Ending	**Annual Required Contributions**	**Actual Contributions**	**Percentage Contributed**
June 30, 2008	$11,014	$4,880	44%

Schedule of Funding Progress

Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Actuarial Accrued Liability (AAL) (b)**	**Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)**	**Funded Ratio (a)/(b)**
January 1, 2007	$0	$72,948	$72,948	0%



Heavilon Hall

Net OPEB Obligation (NOO)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a)+(b)+(c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d)-(e) (f)	NOO as of End of Year (g)
January 1, 2007	June 30, 2008	$11,014	$0	$0	$11,014	$4,880	$6,134	$6,134

Valuation Date	January 1, 2007
Actuarial Cost Method	Entry Age Normal, Level Percent of Pay
Amortization Method	20 Years, Closed, Level Percent of Pay
Remaining Amortization Period	20 Years Remaining as of January 1, 2007
Asset Valuation Method	N/A, No Assets in Trust
Actuarial Assumptions:	
Discount Rate	5%
Projected Payroll Increases	3%
Health-Care Cost Trend Rate:	
Medical	10% Graded to 5% over 5 Years
Prescription Drugs	12% Graded to 5% over 7 Years
Vision	3%
Administrative Costs	5%
Plan Membership:	January 1, 2007
Current Retirees and Surviving Spouses	242
Current Disabled	197
Current Active Members	12,047
Total	12,486

Bindley Bioscience Building

Martin C. Jischke Hall of Biomedical Engineering

NOTE 7 — CAPITAL ASSETS

Capital asset activity for the years ending June 30, 2008, and June 30, 2007, is summarized below.

Capital Assets Activity	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets, Not Being Depreciated:				
Land	$22,721			$22,721
Construction in Progress	168,906	$84,788	$115,996	137,698
Total, Capital Assets, Not Being Depreciated	$191,627	$84,788	$115,996	$160,419
Capital Assets, Being Depreciated:				
Land Improvements	59,055	4,139		63,194
Infrastructure	54,687	5,252		59,939
Buildings	1,674,392	159,767	2,000	1,832,159
Equipment	460,779	41,989	16,501	486,267
Software	42,487	16,743		59,230
Total, Capital Assets, Being Depreciated	$2,291,400	$227,890	$18,501	$2,500,789
Less Accumulated Depreciation:				
Land Improvements	41,203	2,682		43,885
Infrastructure	15,136	3,875		19,011
Buildings	701,161	59,257	1,482	758,936
Equipment	291,342	35,998	14,492	312,848
Software (Operating and Administrative)	10,894	4,840		15,734
Total Accumulated Depreciation	$1,059,736	$106,652	$15,974	$1,150,414
Total Capital Assets, Net of Accumulated Depreciation	**$1,423,291**	**$206,026**	**$118,523**	**$1,510,794**

Capital Assets Activity	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets, Not Being Depreciated:				
Land	$22,345	$376		$22,721
Construction in Progress	135,884	91,989	$58,967	168,906
Total, Capital Assets, Not Being Depreciated	$158,229	$92,365	$58,967	$191,627
Capital Assets, Being Depreciated:				
Land Improvements	55,837	3,218		59,055
Infrastructure	48,388	6,299		54,687
Buildings	1,591,343	83,150	101	1,674,392
Equipment	434,172	46,530	19,923	460,779
Software	16,484	26,940	937	42,487
Total, Capital Assets, Being Depreciated	$2,146,224	$166,137	$20,961	$2,291,400
Less Accumulated Depreciation:				
Land Improvements	38,802	2,401		41,203
Infrastructure	11,799	3,337		15,136
Buildings	646,674	54,588	101	701,161
Equipment	273,935	34,496	17,089	291,342
Software (Operating and Administrative)	8,945	2,886	937	10,894
Total Accumulated Depreciation	$980,155	$97,708	$18,127	$1,059,736
Total Capital Assets, Net of Accumulated Depreciation	**$1,324,298**	**$160,794**	**$61,801**	**$1,423,291**

NOTE 8 — DEBT RELATED TO CAPITAL ASSETS

Short-term Debt. On April 1, 2008, a commercial paper agreement was negotiated with Goldman, Sachs & Company. This agreement authorized a maximum line of credit of $50,000 to finance portions of the costs of certain infrastructure, equipment, and facilities on various campuses. The interest rate is variable and reset weekly based on market conditions. The University can set the maturity dates up to 270 days. The balance outstanding as of June 30, 2008, was $10,000.

Notes Payable. Notes outstanding of $1,230 at June 30, 2008, represent financing for various activities.

On March 1, 1998, an Energy Savings Loan Agreement was negotiated with Bank One, now JP Morgan Chase & Co. This agreement authorized a maximum line of credit of $10,000 to pay the costs of qualified energy savings projects through December 31, 2001. Projects included both capital and non-capital improvements to the physical plant. Individual notes may have either a fixed or floating interest rate with maturities not extending beyond 2011. The outstanding balance of these notes as of June 30, 2008, was $1,230. The interest rate for the notes ranged from 2.46% to 3.55% as of June 30, 2008. The floating-rate notes can be reset at the University's option every one, two, three, or six months and is based on London Interbank Offered Rate (LIBOR) at the reset dates.

Bonds Payable. Bonds payable at June 30, 2008, total $544,130, consisting of the following issues:

Issue	Issue Date	Interest Rates	Maturity Dates	Outstanding June 30, 2008
Student Facilities System Revenue Bonds:				
Series 2003A	2003	4.00%–5.38%	2004–2014	$31,890
Series 2003B	2003	2.00%–4.25%	2005–2018	5,905
Series 2004A	2004	1.60% at June 30*	2008–2033	28,100
Series 2005A	2005	1.55% at June 30*	2005–2029	22,275
Series 2007A	2007	5.00%–5.25%	2014–2029	61,865
Series 2007B	2007	4.00%–5.00%	2008–2032	27,065
Series 2007C	2007	1.15% at June 30*	2010–2033	61,725
Student Fee Bonds:				
Series H	1993	2.78%–5.25%	1998–2015	8,800
Series K	1995	2.20%–5.63%	1997–2020	14,400
Series L	1995	3.00%–5.63%	1997–2020	12,600
Series N	1998	3.55%–5.50%	1998–2014	21,340
Series O	1998	2.68%–5.63%	2000–2019	24,195
Series P	1998	4.00%–5.25%	1999–2017	38,760
Series Q	2000	2.63%–6.00%	2002–2010	6,060
Series R	2002	3.00%–5.38%	2002–2023	15,215
Series S	2004	1.60% at June 30*	2007–2026	12,975
Series T	2004	1.60% at June 30*	2008–2027	14,500
Series U	2005	3.50%–5.25%	2006–2022	35,000
Series V	2005	1.60% at June 30*	2008–2027	60,415
Series W	2006	4.00%–5.00%	2007–2026	41,045
Total				**$544,130**

**Variable interest rate.*

The Student Fee Bonds are secured by a pledge of mandatory student fees, and the Student Facilities System Revenue Bonds are secured by a pledge of any other available income, except student fees and state appropriations. Student fees (net of scholarship allowance) were $525,791 for the 2007–2008 fiscal year. Variable interest rates are updated weekly and are based upon market conditions.

On October 3, 2007, Student Facilities System Revenue Bonds, Series 2007C, were issued in the amount of $61,725. This series was issued to finance the costs for Phase I renovation of Windsor Residence Hall and a portion of the new student housing facility at the West Lafayette campus as well as costs of issuance.

Included in Current Liabilities for 2007–2008 is $199,990 ($139,580 for 2006–2007) of Student Fee demand bonds (Series S, Series T, and Series V), backed by student fees, and Student Facility Revenue demand bonds (Series 2004A, Series 2005A, and Series 2007C), backed by certain auxiliary revenues and other available funds, maturing serially through July 1, 2034. The bonds were issued under Indiana Code IC 21-34 and IC 21-35. The proceeds of the bonds were used to (a) provide funds for certain capital improvements, (b) refund certain interim financing, (c) provide for construction period interest for a portion of the bonds, and (d) pay costs incurred to issue the bonds. The anticipated redemption schedule for these bonds is included in the scheduled debt payments table on page 36.

The University may direct a change in the type of interest rate borne by the bonds, in whole or in part, at any time from the weekly rate to a rate determined pursuant to one of six additional interest rate modes: a daily rate, a monthly rate, a quarterly rate, a semiannual rate, or a term rate (each an "adjustable rate"), or a fixed rate in accordance with the procedures provided in the indenture. However, if the bonds are converted in whole or in part to a fixed rate, the interest rate on the bonds so converted may not be subsequently changed to an adjustable rate.

The bonds are subject to purchase on the demand of the holder, a "put," at a price equal to principal plus accrued interest, on seven days' notice and delivery to the University's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate.

If within one day of the put date the remarketing agent is unable to resell any bonds that are put, the University is required to provide the funds to satisfy the repurchase of the bonds at 100% par value, plus interest accrued to the settlement date of the put. With the exception of Series T, the University has chosen to provide self-liquidity in the event of a put from any holder of these bonds.

For Student Fee Bonds, Series T, the University has chosen to maintain a standby purchase agreement with JPMorgan Chase & Co. whereby the bank would provide liquidity in the event of a bondholder put. The University pays an annual commitment fee of 9 basis points (0.09%) for this support. If the line is drawn, interest will accrue at a defined LIBOR-based rate not to exceed 10%. The current standby purchase agreement is valid through October 29, 2009. The agreement was extended in October 2008 with an annual commitment fee of 40 basis points (0.40%). There were no amounts drawn as of June 30, 2008.

Capital Leases. At June 30, 2008, long-term debt included amounts relating to properties with a net book value (net of accumulated depreciation) of $90,412 leased from the Ross-Ade Foundation, a blended component unit. The outstanding balance on these leases at June 30, 2008, was $67,580. The debt payments on these properties in the 2007–2008 fiscal year totaled $7,888, consisting of $4,345 principal and $3,543 interest.

On April 9, 2004, the University entered into an $8,195 capital lease agreement with the Purdue Research Foundation (PRF), a discrete component unit. The lease took effect upon completion of the Academic Learning Center near the Calumet campus. The outstanding balance on the lease was $7,595 as of June 30, 2008, and the facility had a book value (net of accumulated depreciation) of $7,493. The debt payments on this property in the 2007–2008 fiscal year totaled $565, consisting of $205 of principal and $360 of interest.

Scheduled bond, lease, and note payments for the fiscal years ending June 30 are as follows:

Fiscal Year	Principal	Interest	Total
2009	$34,373	$23,011	$57,384
2010	34,975	21,593	56,568
2011	30,855	20,167	51,022
2012	32,627	18,754	51,381
2013	34,430	17,243	51,673
2014–2018	158,390	65,331	223,721
2019–2023	133,480	38,014	171,494
2024–2028	117,870	15,368	133,238
2029–2033	49,435	2,266	51,701
2034	4,100	0	4,100
	$630,535	$221,747	$852,282
Net Unamortized Premiums and Deferred Costs	12,555		12,555
Total	**$643,090**	**$221,747**	**$864,837**

Purdue's Gateway to the Future arch, a gift from the classes of 1958 and 1959

NOTE 9 — OTHER DEBT INFORMATION

Long-term Liabilities. Long-term liability activity for the years ended June 30, 2008, and June 30, 2007, is summarized below:

Long-term Liabilities	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Current Portion
Advances from Federal Government	$20,174		$122	$20,052	
Bonds Payable, Net	518,181	$71,725	25,266	564,640	$226,286
Compensated Absences	40,470	36,034	24,207	52,297	24,644
Other Post-Employment Benefits		11,014	4,880	6,134	4,880
Funds Held in Trust for Others	8,042	5,802	6,288	7,556	
Leases Payable to Affiliated Foundations	82,150		4,930	77,220	5,124
Notes Payable	2,261		1,031	1,230	766
Total	**$671,278**	**$124,575**	**$66,724**	**$729,129**	**$261,700**

Long-term Liabilities	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion
Advances from Federal Government	$20,456		$282	$20,174	
Bonds Payable, Net	511,052	$99,641	92,512	518,181	$163,531
Compensated Absences	38,430	23,595	21,555	40,470	24,207
Deferred Revenue	838		838		
Other Post-Employment Benefits					
Funds Held in Trust for Others	7,026	1,296	280	8,042	
Leases Payable to Affiliated Foundations	86,170	72,923	76,943	82,150	4,931
Notes Payable	3,883		1,622	2,261	1,031
Total	**$667,855**	**$197,455**	**$194,032**	**$671,278**	**$193,700**

Commercial paper of $10,000 is included in the Bonds Payable value in the 2007–2008 table above.

Defeased Bond Issues. The University defeased bond issues by prepayment or issuing new debt as shown below. United States Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trusts with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books.

Description of Bonds	Final Maturity/ Call Date	Amount Outstanding June 30, 2008
Student Fee and Facilities:		
Building Facilities Fee Bonds	7/1/2009	$2,260
Dormitory Facilities Revenue Bonds, Series A–L	7/1/2008	455
Student Fee Bonds Series Q	7/1/2010	34,955
Student Facilities System Revenue Bonds, Series 2003A	7/1/2013	48,345
Student Facilities System Revenue Bonds, Series 2003B	7/1/2013	17,950
Certificates of Participation, Issued by Ross-Ade Foundation:		
Certificates of Participation, Series 2001A	7/1/2011	$58,815

Direct Financing Lease. In 1998, the University agreed to refinance the construction of the Animal Disease Diagnostic Laboratory (ADDL) Building and lease it to the Indiana Department of

Administration on behalf of the Indiana State Board of Animal Health. Lease payments are equal to the University's debt service payments. Nonrecourse bonds for $10,830 were issued to the Indiana Bond Bank, secured solely by lease payments from the Indiana Department of Animal Health through annual appropriations for this purpose from the state of Indiana. The University's rights to receive lease payments have been assigned to the trustees for the Indiana Bond Bank. At June 30, 2008, the outstanding amount of these bonds was $3,335. The ADDL Building, the lease receivable, and the bonds payable are not reflected on the University's books.

In addition, the University has entered into various operating leases for buildings and equipment. Net expenses for rent under these leases for the year ending June 30, 2008, were $9,449 and are included in supplies and services in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 10 — DONOR-RESTRICTED ENDOWMENTS

The University's endowment funds (including true, term, and funds functioning as endowments) are invested in a unitized pool. The unitized endowment pool purchases investments to generate present and future income in support of various programs. The University's Board of Trustees establishes the spending policy for the unitized endowment pool. The current spending policy distributes 4.5% of the average of the ending values for the prior twelve quarters in semiannual distributions. The distribution includes both income and equity components. Market appreciation of the pool was $467,430 as of June 30, 2008. Of this amount, 39.2% represents appreciation attributable to donor-restricted (true and term) endowments. The University's endowment policies are subject to the provisions of Indiana Code IC 30-2-12, "Uniform Management of Institutional Funds." Under this section, the University's Board of Trustees may authorize expenditure — consistent with donors' intent — of net appreciation in the fair value of the assets of the endowment.

NOTE 11 — CONTINGENT LIABILITIES AND COMMITMENTS

Legal Actions. In the normal course of its activities, the University is a party in various legal actions. Although it is involved in a number of claims, the University does not anticipate significant losses or costs. After taking into consideration legal counsel's evaluation of pending actions, the University believes that the outcome thereof will not have a material effect on the financial statements.

Construction Projects. As of June 30, 2008, contractual obligations for capital construction projects were $100,259.

Natural Gas Procurement. The University has entered into various forward contracts to purchase natural gas at a specified time in the future at a guaranteed price. This activity allows the University to plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which the University is committed to buy. This would reduce the value of the contract. The University could sell the forward contract at a loss and then buy natural gas on the open market. The University is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the University have to procure natural gas on the open market.

Limited Partnership Agreements. Under the terms of various limited partnership agreements approved by the University's Board of Trustees, the University is obligated to make periodic payments for commitments to venture capital, private equity, natural resources, and real estate investments over the next several fiscal years. As of June 30, 2008, the University had the following unfunded commitments: $56,870 to 37 private equity/venture capital managers, $13,459 to 11 private real estate managers, $25,364 to 11 natural resource managers, and $1,110 to the Indiana Future Fund. These amounts are not included as liabilities in the Statement of Net Assets. Outstanding commitments are estimated to be paid based on the capital calls from the individual managers, subject to change due to market conditions, as shown in the table at right:

Fiscal Year	Amount
2008–2009	$24,201
2009–2010	24,201
2010–2011	24,201
2011–2012	24,201

NOTE 12 — RETIREMENT PLANS

Authorization. Authorization to establish retirement plans is stated in Indiana Code IC 21-38-7.

All Employees. University employees are participants in various retirement programs, including the Federal Insurance Contributions Act (FICA). For the 2007–2008 fiscal year, the University's cost was $47,440 under this program.

Faculty and Administrative/Professional Staff. Faculty, professional, and certain administrative employees of the University participate in a defined contribution plan administered through the Teachers Insurance and Annuity Association (TIAA). Benefit provisions are established and/or amended by the Board of Trustees. The plan purchases individual annuity contracts for members and provides for immediate vesting. Faculty and management personnel participate immediately upon employment; all others must satisfy a three-year waiting period. The University contributes 11% of each participating employee's salary up to $9 and 15% of the salary above $9. Employee contributions are not required but may be made on a voluntary basis. For the 2007–2008 fiscal year, the University made contributions totaling $66,201 to this plan. For the fiscal year ending June 30, 2008, there were 6,545 employees participating in TIAA with annual pay equal to $426,994.

Clerical and Service Staff. Regular clerical and service staff employed at least half-time participate in the Public Employees Retirement Fund (PERF), a retirement program administered by an agency of the state of Indiana. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Benefit provisions are established and/or amended by the state of Indiana. There are two parts to this plan: an annuity savings plan to which the University contributes 3% of the employee's salary and a defined benefit agent multi-employer plan to which the University currently contributes 6.3% of the employee's salary. Employee contributions are not required but may be made on a voluntary basis. Employees are eligible to participate in this plan immediately upon employment and are fully vested in the defined benefit plan after 10 years of employment. For the 2007–2008 fiscal year, the University made contributions totaling $12,877 to this plan. For the fiscal year ended June 30, 2008, there were 5,295 employees participating in PERF with annual pay equal to $145,431.

The required employer's contribution was determined as part of the July 1, 2007, actuarial valuation using the entry age normal cost method. The actuarial assumptions included: (a) 7.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 4% per year, and (c) 1.5% per year cost-of-living adjustments. Actuarial information from the 2006–2007 fiscal year related to the University's portion of the plan is disclosed later in this note. Actuarial information for the 2004–2005 fiscal year is not available.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing to: Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204; by calling (317) 233-4162; or by visiting www.in.gov/perf.

Police and Firefighters. A supplemental pension program for police officers and firefighters (Police/Fire) was authorized by the Board of Trustees on March 13, 1990, and was established on July 1, 1990. In conjunction with other retirement plans offered by the University, this plan provides police officers and firefighters employed by Purdue with a total retirement benefit that is comparable to the benefits received by municipal police and fire personnel in Indiana. Benefit provisions are established and/or amended by the Board of Trustees. The program is an agent single-employer defined benefit plan administered through the Teachers Insurance and Annuity Association (TIAA). The plan provides for vesting after the completion of 10 years of covered employment, and employees are eligible for normal retirement benefits after the completion of 20 years of covered employment and attainment of 55 years of age. The normal benefit payable under this plan is an amount equal to 50% of the annual base salary of a nonprobationary-level police officer at each campus, as in effect at the time of a member's retirement, reduced by the amount of any pension benefits payable under other Purdue University retirement programs, including TIAA-CREF and PERF. For the fiscal year ending June 30, 2008, there were 97 employees participating in Police/Fire with annual pay equal to $4,854.

Employees covered by this plan are required to make contributions equal to 3% of the current salary for a nonprobationary-level police officer. University contributions are to be in such additional amounts as needed to maintain the plan on an actuarially sound basis. Financial reports related to this plan may be obtained by writing to: Public Records Officer, Purdue University, Freehafer Hall, 401 South Grant Street, West Lafayette, IN 47907-2024.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2007. Because the plan was implemented on a retroactive basis to cover all current police officers and firefighters, the University has an unfunded actuarial liability at July 1, 2007, of $305, which is being amortized over a 30-year period. The required contribution to the plan for the 2007–2008 fiscal year was $662, consisting of $585 normal cost, $34 amortization of the unfunded liability, and $43 of interest. Of the required amount, $134 represents employee contributions, and $528 represents the University's contribution. The actual amount contributed by the University was $645. The required contribution was determined as part of the July 1, 2007, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) 7% investment rate of return, (b) projected salary increases of 4% per year, and (c) 3% per year cost-of-living adjustments.

Additional disclosures related to the University's defined benefit programs (PERF and Police/Fire) are presented in the table that follows on page 41.

Three-Year-Trend Information

Plan*	Fiscal Year Ending June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Total Unfunded (Excess) Actuarial Liability	Funded Ratio	Annual Covered Payroll	Liability to Payroll	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Benefit)
PERF†	2006	$177,925	$181,268	$3,343	98.2%	$127,808	2.6%	$5,137	113.0%	$(8,785)
	2007	190,984	187,822	(3,162)	101.7%	131,341	(2.4)%	7,829	89.1%	(7,932)
Police/Fire	2005	16,209	18,724	2,515	86.6%	4,675	53.8%	822	100.4%	(3)
	2006	17,595	19,074	1,479	92.2%	4,595	32.2%	623	135.8%	(223)
	2007	19,679	19,984	305	98.5%	4,854	6.3%	528	122.2%	(117)

**Data for 2008 not available from actuaries.*
†University portion only.

Cooperative Extension Service. As of June 30, 2008, there were 57 staff members with federal appointments employed by the Indiana Cooperative Extension Service and covered by the Federal Civil Service Retirement System.

NOTE 13 — RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; accident, health, and other medical benefits provided to employees and their dependents; and long-term disability benefits provided to employees. The University handles these risks of loss through combinations of risk retention and commercial insurance. For buildings and contents, the University's risk retention is $250 per occurrence. There is $1,000 retention per occurrence or wrongful act for general, automobile, and professional and educators' legal liability coverage. The University retains the entire risk for medical benefits. The maximum liability to the University for job-related illnesses or injuries is $500 per incident, with a maximum annual aggregate liability of $7,353.

Separate funds have been established to account for these risks. All departments of the University are charged fees based on actuarial estimates of the amounts necessary to pay claims and to establish reserves for catastrophic losses. For the 2007–2008 fiscal year, the University reflected $2,852 of insurance proceeds as nonoperating income within the Plant Assets Retired line in the Statement of Revenues, Expenses, and Changes in Net Assets.

The University accrues liabilities for claims if information indicates that a loss has been incurred as of June 30, and the amount of the loss can reasonably be estimated. The liability for medical claims incurred but not reported at June 30, 2008, is based on actuarial estimates. Changes in the balances of claims liabilities during the 2007–2008 and 2006–2007 fiscal years were as follows:

	June 30, 2008	June 30, 2007
Beginning Liability	$15,093	$13,620
Claims Incurred	60,388	62,890
Claims Payments	(64,131)	(61,417)
Ending Liability	**$ 11,350**	**$ 15,093**

NOTE 14 — OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the fiscal years ended June 30, 2008, and June 30, 2007, are summarized as follows:

Operating Expenses by Function for the Year Ending June 30, 2008

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$517,680	$79,861			$597,541
Organized Activities Related to Instruction and Research	10,646	9,597			20,243
Sponsored Research	122,019	60,360			182,379
Other Separately Budgeted Research	21,308	2,174			23,482
Extension and Public Service	72,299	31,981			104,280
Academic Support	14,226	15,855			30,081
Student Services	30,929	8,600			39,529
Physical Plant Operations and Maintenance	73,435	54,065			127,500
General Administration	71,467	24,444			95,911
General Institutional Services	37,458	11,707			49,165
Depreciation			$106,652		106,652
Student Aid	919	535		$38,354	39,808
Auxiliary Enterprises	88,357	91,131			179,488
Total	**$1,060,743**	**$390,310**	**$106,652**	**$38,354**	**$1,596,059**

Operating Expenses by Function for the Year Ending June 30, 2007

	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships, Fellowships, and Student Awards	Total
Instruction and Departmental Research	$470,860	$78,303			$549,163
Organized Activities Related to Instruction and Research	9,872	9,755			19,627
Sponsored Research	112,084	61,660			173,744
Other Separately Budgeted Research	22,351	2,467			24,818
Extension and Public Service	68,303	27,190			95,493
Academic Support	14,591	13,796			28,387
Student Services	30,489	7,333			37,822
Physical Plant Operations and Maintenance	76,033	31,635			107,668
General Administration	65,187	14,565			79,752
General Institutional Services	37,620	10,989			48,609
Depreciation			$97,708		97,708
Student Aid		746		$33,267	34,013
Auxiliary Enterprises	86,981	75,515			162,496
Total	**$994,371**	**$333,954**	**$97,708**	**$33,267**	**$1,459,300**

NOTE 15 — SUBSEQUENT EVENTS

On August 21, 2008, Tax-Exempt Commercial Paper, Series 2008-1, was issued in the amount of $8,000. This series was issued to provide financing or temporary financing for repair and rehabilitation projects and qualified energy savings projects.

It is anticipated that Student Facilities System Revenue Bonds, Series 2008A, will be issued in the amount of $36,600. This series will be issued to fund construction of a new residence hall on the Calumet campus, replacement housing, and the renovation of the Windsor Halls complex on the West Lafayette campus. A portion of the series will also refund commercial paper. The bonds will be issued in a fixed-rate mode.

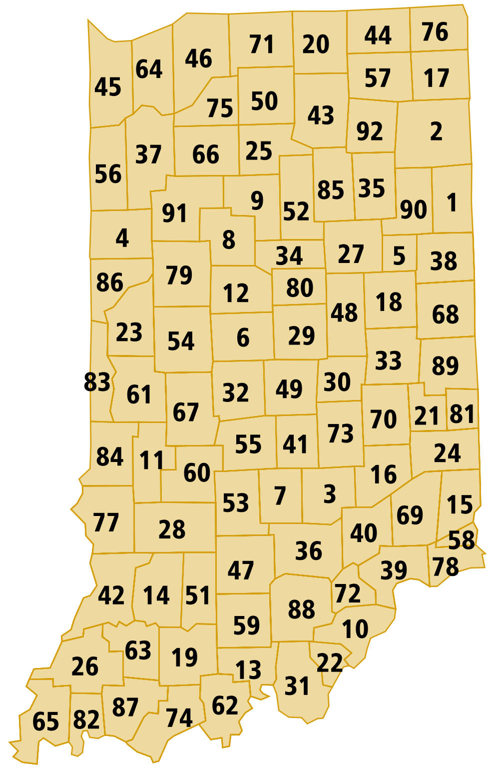
During September 2008, $77,570 of demand bonds were put to the University. As of October 2, all of the demand bonds were successfully remarketed.

Loeb Fountain in Founders Park

IN-STATE ENROLLMENT (UNAUDITED)

Total In-State Enrollment by County, Fall 2007–2008 Academic Year

The overall (in-state and out-of-state) enrollment at Purdue University was 70,398 students for the 2007–2008 fall semester. The breakdown was: West Lafayette, 39,102; Calumet, 9,607; Fort Wayne, 11,943; North Central, 3,904; and Technology Statewide, 1,383. (The enrollment figures do not include 4,411 Purdue University students at Indiana University-Purdue University Indianapolis.) Although students came to Purdue from all over the world, 73% systemwide came from within Indiana.



	County	West Lafayette	Regional Campuses	Statewide Technology Locations	Total
1	Adams	80	350	2	432
2	Allen	1,186	7,226	3	8,415
3	Bartholomew	267	1	82	350
4	Benton	134	2	8	144
5	Blackford	32	13		45
6	Boone	453	6	8	467
7	Brown	17		4	21
8	Carroll	192	2	19	213
9	Cass	180	21	18	219
10	Clark	129	4	33	166
11	Clay	53			53
12	Clinton	214	7	16	237
13	Crawford	10		2	12
14	Daviess	43	1		44
15	Dearborn	167	2	5	174
16	Decatur	105		41	146
17	DeKalb	117	555	2	674
18	Delaware	174	26	13	213
19	Dubois	166	3	1	170
20	Elkhart	513	141	46	700
21	Fayette	33	3	20	56
22	Floyd	160	2	33	195
23	Fountain	91		1	92
24	Franklin	80		6	86
25	Fulton	77	44	3	124
26	Gibson	71			71
27	Grant	138	102	21	261
28	Greene	62			62
29	Hamilton	1,829	16	22	1,869
30	Hancock	265	4	7	276
31	Harrison	56		25	81

	County	West Lafayette	Regional Campuses	Statewide Technology Locations	Total
32	Hendricks	639	6	19	664
33	Henry	107	3	27	137
34	Howard	409	21	106	536
35	Huntington	109	400	2	511
36	Jackson	103		21	124
37	Jasper	197	187	2	386
38	Jay	27	28	8	63
39	Jefferson	76		7	83
40	Jennings	33	1	19	53
41	Johnson	371	4	8	383
42	Knox	88			88
43	Kosciusko	241	518	3	762
44	LaGrange	53	127	3	183
45	Lake	1,970	7,636	2	9,608
46	LaPorte	361	1,693	1	2,055
47	Lawrence	91	3	1	95
48	Madison	263	14	70	347
49	Marion	2,143	45	28	2,216
50	Marshall	183	59	12	254
51	Martin	13			13
52	Miami	117	35	30	182
53	Monroe	226	9		235
54	Montgomery	201		8	209
55	Morgan	155	7	8	170
56	Newton	83	30	1	114
57	Noble	115	469		584
58	Ohio	15			15
59	Orange	47	1	1	49
60	Owen	27	1		28
61	Parke	38		2	40
62	Perry	23		3	26

	County	West Lafayette	Regional Campuses	Statewide Technology Locations	Total
63	Pike	13		1	14
64	Porter	891	2,203	1	3,095
65	Posey	74		1	75
66	Pulaski	113	42	1	156
67	Putnam	93	2	3	98
68	Randolph	62	7	5	74
69	Ripley	83	1	16	100
70	Rush	67	1	6	74
71	St. Joseph	963	124	97	1,184
72	Scott	24		7	31
73	Shelby	138	1	10	149
74	Spencer	59	1		60
75	Starke	64	175	2	241
76	Steuben	90	249		339
77	Sullivan	29	1		30
78	Switzerland	16			16
79	Tippecanoe	3,017	22	154	3,193
80	Tipton	90	3	13	106
81	Union	9	1	2	12
82	Vanderburgh	352	3		355
83	Vermillion	41		11	52
84	Vigo	182	1	5	188
85	Wabash	83	184	1	268
86	Warren	64		1	65
87	Warrick	201	1	2	204
88	Washington	31		14	45
89	Wayne	139	2	75	216
90	Wells	76	268		344
91	White	260	13	26	299
92	Whitley	87	414		501
	Total	23,029	23,547	1,287	47,863

ACKNOWLEDGEMENTS:

The following staff members of the Department of Accounting Services, Office of the Comptroller, prepared the *2007–2008 Financial Report* and the included financial statements.

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